Public hearing on CP on Guidelines on the discount rate for variable remuneration

29 November 2013

Outline

- Legal background and EBA's mandate
- Elements of the discount rate
- Application of the discount rate
- Public consultation

Legal background and EBA's mandate

Article 16 EBA Regulation (Mandate to issue Guidelines)

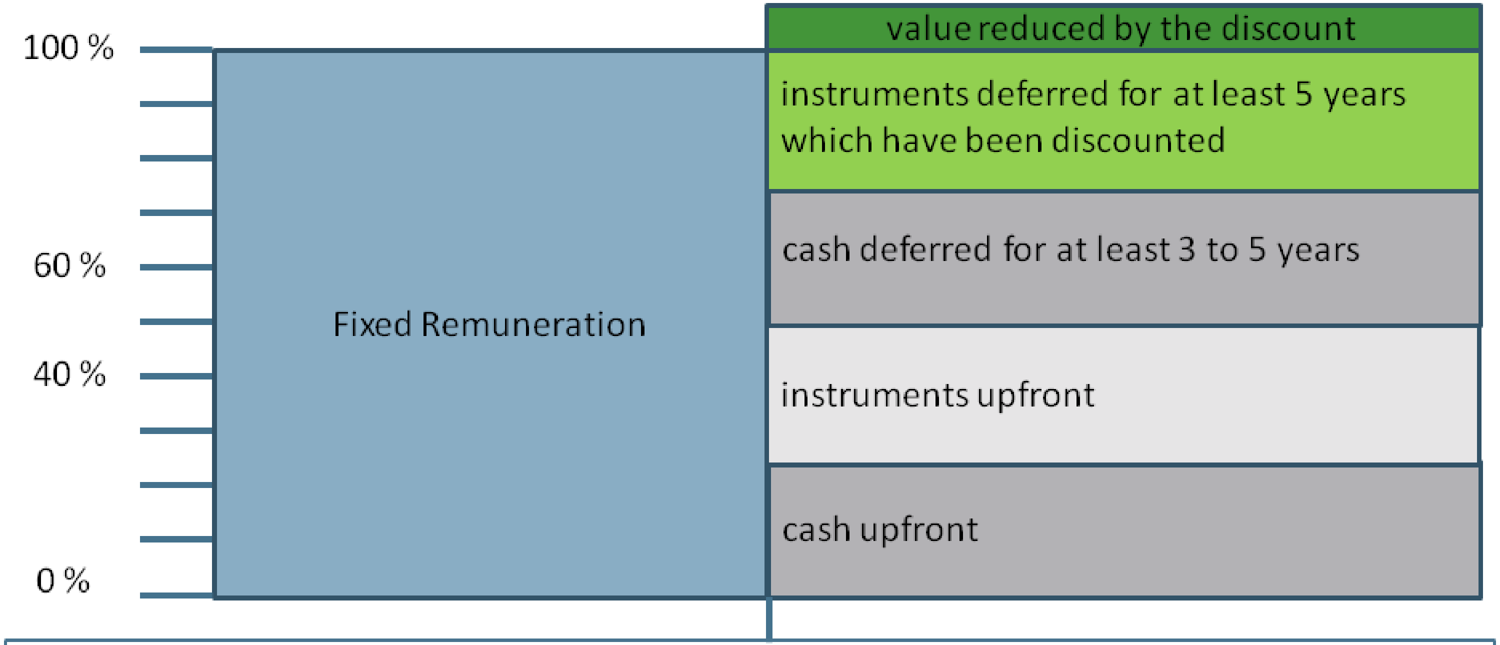
Second sub-paragraph of Article 94(1)(g)(iii) of Directive 2013/36/EU

'EBA shall prepare and publish, **by 31 March 2014**, guidelines on the applicable notional discount rate **taking into account all relevant factors including inflation rate and risk, which includes length of deferral**. The EBA guidelines on the discount rate must specifically **consider how to incentivise the use of instruments** which are **deferred for a period of not less than five years**.'

Legal background

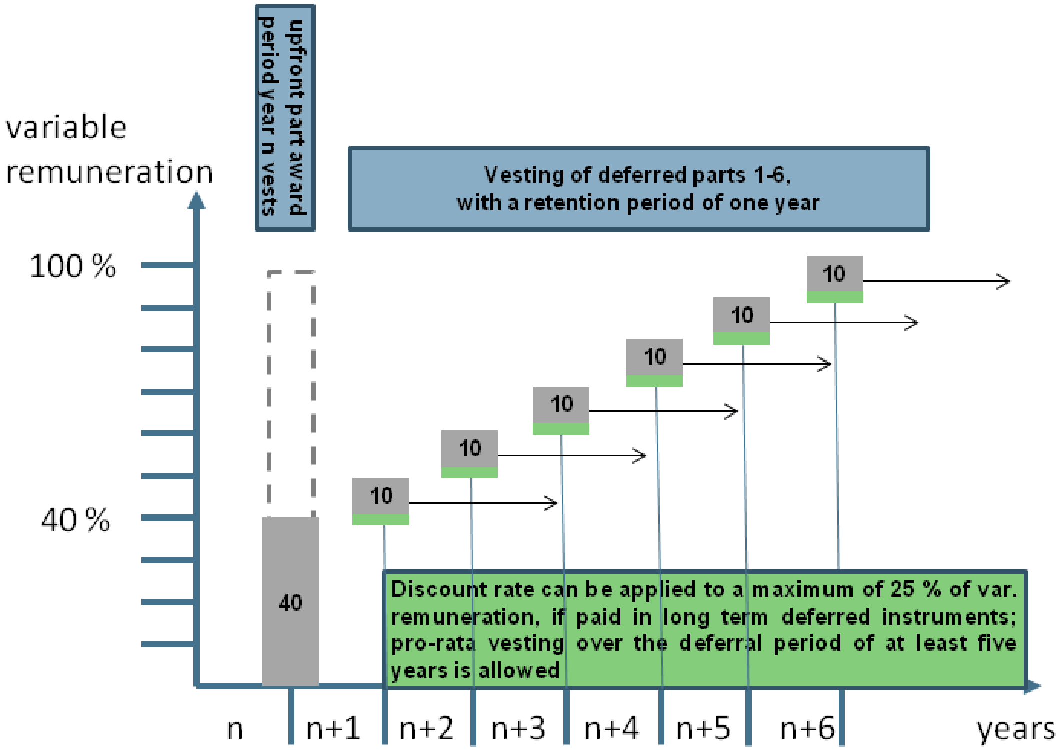
- For identified staff variable remuneration is limited to 100 % (200 %) of the fixed remuneration
- For the purpose of calculating the ratio, up to 25 % of variable remuneration can be discounted, if paid in instruments deferred for at least 5 years
- Member States can set lower percentages (than 25 %); this includes the possibility to not allow for the discount of variable remuneration
- Variable and fixed remuneration defined in CRD and CEBS Guidelines on Remuneration Policies and Practices

Remuneration and discount factor overview



1:1 ratio between fixed and variable remuneration; at least 40 % - 60 % of variable remuneration is deferred; at least 50 % of variable remuneration is paid in instruments. 25 % of variable remuneration was paid in instruments deferred for a period of at least five years and can be discounted.

Remuneration and discount factor overview



40 % of total variable remuneration paid upfront; 60 % of total variable remuneration deferred for six years with even spread and two years retention

Elements of the discount rate

Guidelines define the discount rate based on the CRD provision

- Inflation
  - of the Member state or comparable indices for other currencies; specific rule for staff in third countries
- Inflation Risk
  - rate for EU government bonds – average EU28
- Incentive factor for the use of long term deferred instruments
  - 10 % (for five years) plus 2 % for each full additional year
- Incentive factor for additional retention periods
  - 2 % for 2 years retention + 1 % for each additional full year

Application of the discount rate

Formula for the calculation of the discount rate

$$discount\ rate = \frac{1}{(1 + i + g + id + ir)^n}$$

i = inflation rate of the Member State or third country
g = interest rate for EU government bonds, EU average
id = incentive factor for use of long-term deferral
ir = incentive factor for retention
n = number of years of the vesting period

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Public consultation

CP published on 23 October 2013

Consultation periods ends: 18 January 2014

Public hearing: 29 November 2013

Please hand in the written comments via our website

www.eba.europa.eu

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